Sergio P. Ermotti (Group CEO): Opening remarks

SLIDE 2 – 1Q16 results

Thank you, Caroline. Good morning everyone.

A lot has been written and said about the challenges faced by the industry in the first quarter. Many of the risks that we have been pointing out for the past few quarters materialized in the first three months of the year, leading to even more pronounced client risk aversion and abnormally low transaction volumes.

For UBS, this was true particularly when compared to the exceptional Q1 we had last year, following a high level of transactional activity triggered by the removal of the euro currency floor by the SNB, as well as our strong performance in APAC.

Nevertheless, our discipline and focus allowed us to deliver a resilient adjusted profit before tax of 1.4 billion francs, with positive contributions from all business divisions and regions. Net profit attributable to shareholders was 707 million francs and our adjusted return on tangible equity was 8.5%.

The bank maintained its strong capital position, with a fully applied Basel III CET1 capital ratio of 14% and a Swiss SRB leverage ratio of 5.4%.

Turning to the business divisions, despite the lowest levels of transaction volumes recorded for a first quarter, Wealth Management’s pre-tax profit was resilient and the business continued to make good progress on its strategic initiatives. Even with moderate client deleveraging, Wealth Management attracted very strong net new money, without compromising
quality or sustainable profit growth. Net inflows were particularly strong from clients in Asia Pacific and the ultra-high net worth segment.

Wealth Management Americas delivered a solid pre-tax profit, significantly higher than the prior quarter, as expenses for litigation declined and an increase net interest and recurring fee income more than offset a decline in transaction revenues, which was the lowest for a first quarter since 2009. Net new money was strong, and reflected net inflows predominantly from newly recruited advisors, as well as from advisors employed with UBS for more than one year. Our financial advisors continue to be the most productive among peers, with an average of 147 million dollars of invested assets per advisor.

We delivered net new money from our combined wealth management businesses of 29.1 billion, the best since the first quarter of 2008. While there is volatility in net new money from quarter-to-quarter, the one constant is our focus on quality rather than quantity. As we look to the full year, we continue to expect net new money growth to be within our target ranges.

Personal and Corporate Banking deserves applause for posting excellent pre-tax profits, especially given continued challenges from negative interest rates. Net new business volume growth from retail clients was 4.9%, and while the first quarter is typically the strongest for new business, this is the highest growth rate we have seen since the first quarter of 2012. Furthermore, we continue to manage credit risk prudently, with minimal credit losses this quarter.

Results in Asset Management declined and were affected by the very challenging conditions for active managers in the quarter, which particularly impacted performance fees. Net new money outflows, excluding money markets, were 5.9 billion including 7.2 billion of pricing-related outflows from one client, and 3.8 billion of outflows driven by client liquidity needs, both from lower-margin passive products.

As I said a few weeks ago, in the environment observed during the quarter, we would consider our Investment Bank’s performance to be satisfactory if it covered its cost of equity, which it comfortably did with a 19% adjusted return on attributed equity. The first quarter of last year included a very strong performance, reflecting very high client activity levels that
particularly favored our business footprint. In Q1, the Investment Bank continued to demonstrate prudent risk and resource control, in-line with very low levels of client activity.

On costs, we made further progress in the quarter, with an additional 100 million in reductions. As we have progressed on detailing our cost reduction plans, we have defined specific front-to-back initiatives that we will now implement to achieve our net 2.1 billion savings target, despite increased on-going regulatory costs.

There is no magic bullet that can fully offset material revenue headwinds without compromising sustainable profitability, or in fact, the future of our franchise. Therefore, we will continue to carefully balance our investments in structural growth with tactical adjustments to our cost base to mitigate the cyclical headwinds we are facing.

We and the industry continue to face challenges, and while UBS is in a position of strength, we will not be complacent. We continue to execute on our strategy with discipline and transition to the new regulatory capital requirements at an optimal pace.

Most importantly, staying close to our clients and delivering on our commitments to shareholders remains paramount, particularly with respect to our capital returns policy. We remain committed to our policy of returning at least 50% of net profits to shareholders. Although it's early in the year, our aim is to continue to grow our ordinary dividend, while building the capital needed to address regulatory requirements and to support our growth.

Thank you. Kirt will now take you through the details of the quarter.

**Kirt Gardner (Group CFO): Walk-through of the quarter**

Slide 3 - UBS Group AG results (consolidated)

My commentary will reference adjusted results unless otherwise stated.

This quarter, our results have been adjusted for restructuring charges of 265 million francs and net foreign currency translation losses of 123 million.
As previously noted, we have adopted the own credit presentation requirements of IFRS 9, with own credit recognized in OCI and no longer affecting our income statement.

**Slide 4 - Wealth Management**

Wealth Management delivered a resilient performance, with profit before tax up 26% to 636 million.

Transaction revenues were the lowest they've been in any first quarter on record. However, revenues increased as activity picked up from the extremely low levels in the prior quarter, which also included the 45 million client shift fee paid from P&C to WM.

Recurring net fee income decreased as the benefits of pricing measures and higher mandate penetration were more than offset by lower invested assets and cross-border outflows.

Net interest income declined as higher deposit revenues were more than offset by lower allocations from Group ALM, and lower lending revenues as loan balances decreased on currency effects and client deleveraging.

The cost income ratio was 66%. Operating expenses decreased 10% to 1.2 billion, largely due to lower net expenses for litigation, regulatory and similar matters.

**Slide 5 - Wealth Management**

Net new money was 15.5 billion, the highest since 2007, with an annualized growth rate of 6.5%. Strong net new money in the quarter was delivered despite client deleveraging, which continued, but slowed from the levels we saw in the second half of 2015.

Invested assets decreased to 925 billion, as currency effects and market declines more than offset strong net new money.

Mandate penetration increased by 60 basis points to 27%, with 6.9 billion of net new mandates.
Net new money was positive in all regions, and was particularly strong in APAC at 8.8 billion, the second highest since 2007.

Net new money was also strong in the ultra high net worth segment at 13.3 billion, an annualized growth rate of 10.5%, the highest since the first quarter of 2013.

Wealth Management Americas delivered another solid quarter, with profit before tax of 245 million dollars.

Operating income rose 1% to 1.9 billion, on record net interest income which benefited from higher interest rates. Recurring net fee income also increased, while transaction-based revenues decreased on lower client activity.

Operating expenses decreased to 1.7 billion, mainly due to 215 million lower net expenses for litigation, regulatory and similar matters. Excluding these costs, expenses increased mainly due to higher allocated costs from Corporate Center, as the prior quarter included a cost agreement credit of 36 million. Personnel expenses also increased, partly due to higher initial costs related to our new healthcare plan.

Net new money was 13.6 billion dollars, predominantly from newly recruited advisors, and also with solid net new money from advisors who have been with the firm for more than one year. For the second quarter, we expect to see the typical trend of increased client withdrawals associated with seasonal income tax payments. In the previous three years, second quarter outflows from tax payments have been in the range of 2 to 4 billion.

Invested assets increased by 2% to 1.1 trillion dollars. Managed account assets were up 3% to a record 361 billion, or 34% of invested assets.
Slide 9 - Wealth Management Americas

FA productivity remained industry-leading, as both revenue and invested assets per FA increased.

Lending balances were flat as growth in mortgage balances was offset by lower securities backed lending.

Slide 10 – Personal & Corporate Banking

Personal and Corporate Banking delivered another solid performance despite persistent negative interest rates and the challenges facing the Swiss economy, with profit before tax increasing 7% to 422 million francs.

Operating income increased 5%, mostly on higher transaction-based income, as the prior quarter included the 45 million client shift fee paid to Wealth Management. Net interest income decreased as higher loan and deposit revenues were more than offset by lower allocations from Group ALM. Despite this, net interest margins remained healthy at 166 basis points.

Net credit loss expenses were negligible, as costs for newly impaired positions were offset by recoveries. As mentioned in previous quarters, given the reliance of the Swiss economy on exports, the continuing strength of the Franc may impact some of the counterparties within our domestic lending portfolio and lead to an increase in the level of credit loss expenses in future periods.

Operating expenses increased by 4% on higher allocated costs from Corporate Center – Services, as the prior quarter included a cost agreement credit of 49 million to P&C.

The cost/income ratio was stable at 56% for the fourth consecutive quarter.

Annualized net new business volume growth for our personal banking business was seasonally higher at 4.9%. We continued to attract new clients, with the highest first quarter net new domestic clients on record, mainly driven by younger clients, a testament to our strong e- and mobile banking offering.
Slide 11 - Asset Management

Asset Management delivered a profit before tax of 110 million in a challenging environment for active management, which impacted performance fees, particularly in Equities, Multi Asset & O’Connor.

Net management fees decreased, primarily reflecting the sale of Alternative Fund Services in the prior quarter.

Net new money excluding money markets was negative 5.9 billion, and included a 7.2 billion pricing-related outflow from one client and 3.8 billion of outflows driven by client liquidity needs, both from lower-margin passive products.

Slide 12 - Investment Bank

Against the backdrop of very challenging market conditions and muted client activity, most pronounced in Europe and APAC, the Investment Bank generated 370 million of profit before tax. Together with continued low consumption of financial resources, this resulted in a return on attributed equity above our target of greater than 15%.

Corporate Client Solutions revenues were 474 million, down 39% year-over-year as the global fee pool declined substantially, with the largest decrease in ECM, and also in Advisory, while DCM were broadly unchanged. Financing Solutions decreased on subdued client activity and margin compression. Risk management revenues decreased due to higher hedging costs, and as the prior year included a gain on a portfolio macro hedge.

In Investor Client Services, Equities revenues were 20% lower against a strong 1Q15, as weak client activity and challenging trading conditions impacted revenues, particularly in Derivatives. The Americas Equities business had a very strong quarter, with positive trends in all products.

Looking at FX, Rates and Credit, we are pleased with the progress we are making, particularly given market conditions. Apart from 1Q 2015, where we saw exceptional activity and revenues related to the SNB floor removal, 1Q 2016 is our best FRC quarter in the last 12, as our client centric, low inventory model worked well in volatile markets.
We recorded a net credit loss recovery of 2 million, as recoveries more than offset expenses for new provisions.

In respect to our Oil & Gas exposure, at the end of March, our total funded and unfunded net banking products exposure decreased by 600 million, to 5.5 billion. This was driven by reductions in the exploration and production as well as the services and supply sub-sectors. We recognized a credit loss expense of 17 million against these exposures, including the effect of establishing a collective provision, taking total provisions to 56 million.

The IB exhibited strong expense and resource discipline. Operating expenses excluding services to/from were down 26% year-over-year, and personnel expenses were down 29%, mainly reflecting lower expenses for variable compensation.

LRD was 32 billion lower year-over-year and down 6 billion from low year-end 2015 levels. VaR was at its lowest level since 2013, and RWA was stable.

**Slide 13 - Corporate Center**

Corporate Center Services recorded a loss before tax of 211 million, compared with a loss of 326 million in the prior quarter, largely as the prior quarter included retained costs, reflecting differences between actual annual costs incurred and allocations to the businesses.

We have refined our Group Asset & Liability Management disclosure, in order to provide greater transparency. Income from Group ALM's activities is disclosed for the three main risk management areas: business division-aligned risk management, capital investment and issuance and Group structural risk management. A description of these activities is provided on page 46 of our quarterly report.

Total risk management net income after allocations retained within Group ALM can vary significantly quarter to quarter. This volatility is driven by factors such as movements in basis spreads and interest rates, the general market environment which impacts the consumption of liquidity and funding by business divisions, and the volume of buffers that we are required to hold, combined with the returns we earn by managing these low yielding assets. While the retained balance for the first quarter was
negative 17 million, in current market conditions we expect it to average around negative 50 million per quarter in the short term, although there will be swings around this figure.

We have organized a call for analysts and investors, with Claude Moser, the head of Group Asset & Liability Management, where he will discuss Group ALM's activities and objectives, and also answer questions on our new disclosures. We will provide details shortly.

Group ALM operating income decreased to negative 27 million, with a profit before tax of negative 25 million, as improved risk management net income after allocations was offset by the effects of accounting asymmetries related to economic hedges as well as hedge accounting ineffectiveness.

Profit before tax in Non-core and Legacy Portfolio was negative 181 million up from negative 312 million in the prior quarter, as expenses decreased largely due to lower net expenses for provisions for litigation, regulatory and similar matters, and as the prior quarter included a charge of 50 million for the annual UK bank levy. There were also lower losses from novation and unwind activity as we take a more passive approach to reducing the remaining exposures.

Non-core and Legacy LRD decreased by 11% to 41 billion, mainly due to lower net OTC derivative exposures. As previously highlighted, we expect a slower pace of reduction in LRD relative to prior experience, with a transition from active management to natural asset decay. Of course we will actively reduce exposures when doing so is accretive to shareholders.

**Slide 14 - Cost reduction**

If we look back, we have delivered over 2 billion of net Corporate Center cost savings since 2011. This includes saves to offset the more than half a billion of incremental annual on-going regulatory costs.

**Slide 15 - Cost reduction**

For the quarter, we achieved an additional annualized net cost reduction of more than 100 million in the Corporate Center, bringing the total savings to 1.2 billion compared with 2013, and we are on track to deliver 1.4 billion by the second quarter.
Savings were largely driven by lower personnel expenses across Corporate Center Services and Non-core and Legacy Portfolio. Occupancy costs decreased, largely as a result of our ongoing efforts to improve real estate efficiency.

**Slide 16 – Cost reduction**

We are fully committed to delivering our 2.1 billion net cost reduction target by the end of 2017.

As we’ve continued to make progress in our cost efforts, we’ve identified other opportunities to generate savings of a front-to-back nature. This has given us increased confidence in our ability to deliver the full 2.1 billion, despite increased ongoing regulatory costs.

For example, as a part of our Investment Bank’s simplification program, reducing the number of booking models in our swap business, and reducing our legal entities will enable streamlining in the finance, operations and risk functions that support them.

We are also continuing to evolve Wealth Management towards a more globally integrated model. This includes simplifying and streamlining middle office support functions, and creating a global distribution and advisory approach, which will increase our agility and ability to serve our clients.

We will continue to focus on capturing synergies across Wealth Management and Wealth Management Americas, specifically improving collaboration around our platforms. This will not only create savings as we capture additional benefits from scale, but also improve our client offering, as we ensure that the best products and services available from across the globe are accessible to clients.

Another opportunity is the review of our risk management and compliance activities and processes where we identified opportunities to eliminate overlaps, streamline controls, centralize support activities and enhance accountability. This will both improve our control environment and deliver efficiencies, and it will also help improve client facing staff productivity.

Apart from our structured cost initiatives, we will continue to look for more tactical actions to mitigate cyclical headwinds.
Our capital position remained strong, with a fully applied Basel III CET1 capital ratio of 14% and a fully applied Swiss SRB leverage of 5.4%.

CET1 capital decreased as profits were more than offset by negative currency translation effects and dividend accruals. Details on CET1 movements can be found on page 83 in our quarterly report.

RWA increased by 6 billion, driven by regulatory add-ons, book size, the net effects of a revised operational risk model, partly offset by currency effects.

LRD increased by 8 billion, due to higher on-balance sheet exposures in Group ALM, related to our HQLA portfolio, as well as an increase in securities financing transaction exposures. These were partly offset by currency effects.

We continued to build our capital position to address the revised Swiss too big to fail ordinance. In March, we issued 1.4 billion francs of high-trigger AT1 capital, the first such transaction in 2016, attracting very strong demand.

We also issued 1.3 billion of TLAC during the quarter, and issued 5 billion dollars in early April, which will contribute to our total loss-absorbing capacity under the new proposed capital requirements.

Thank you, and with that, Sergio and I will now open it up for questions.
Cautionary statement regarding forward-looking statements: This presentation contains statements that constitute “forward-looking statements,” including but not limited to management’s outlook for UBS’s financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS’s business and future development. While these forward-looking statements represent UBS’s judgments and expectations concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS’s expectations. These factors include, but are not limited to: (i) the degree to which UBS is successful in executing its announced strategic plans, including its cost reduction and efficiency initiatives and its targets for risk-weighted assets (RWA) and leverage ratio denominator (LRD), and the degree to which UBS is successful in implementing changes to its wealth management businesses to meet changing market, regulatory and other conditions; (ii) the continuing low or negative interest rate environment, developments in the macroeconomic climate and in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, and currency exchange rates, and the effect of economic conditions and market developments on the financial position or creditworthiness of UBS’s clients and counterparties; (iii) changes in the availability of capital and funding, including any changes in UBS’s credit spreads and ratings, as well as availability and cost of funding to meet requirements for debt that will be eligible for total loss-absorbing capacity (TLAC) requirements, or loss-absorbing capital; (iv) changes in or the implementation of new regulatory requirements due to measures to reduce resolvability risk; (v) the degree to which UBS is successful in implementing further changes to its legal structure to improve its resolvability and meet related regulatory requirements, including changes in legal structure and reporting required to implement US enhanced prudential standards, implementing a new company model, the transfer of the Asset Management business to a holding company, and the potential need to make further changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements relating to capital requirements, resolvability requirements and proposals in Switzerland and other countries for mandatory structural reform of banks and the extent to which such changes have the intended effects; (vii) changes in UBS’s competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS’s ability to compete in certain lines of business; (viii) changes in the standards of conduct applicable to our businesses that may result from new regulation or new enforcement of existing standards, including proposed measures to impose new and enhanced duties when interacting with customers and in the execution and handling of customer transactions; (ix) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations, including the potential for disqualification from certain businesses or loss of licenses or privileges as a result of regulatory or other governmental sanctions, as well as the effect that litigation, regulatory and similar matters have on the operational component of our RWA; (x) the effects on UBS’s cross-border banking business of tax or regulatory developments and of possible changes in UBS’s policies and practices relating to this business; (xi) UBS’s ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors including differences in compensation practices; (xii) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters; (xiii) limitations on the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xiv) whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; (xv) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading, financial crime, cyber-attacks, and systems failures; (xvi) restrictions on the ability of UBS Group AG to make payments or distributions, including due to requirements due to measures to reduce resolvability risk; (xvii) the degree to which UBS is successful in implementing changes to its wealth management businesses to meet changing market, regulatory and other conditions; (xviii) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC.
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Use of adjusted numbers
Unless otherwise indicated, “adjusted” figures exclude the adjustment items listed on slide 26 of our 1Q16 results presentation, to the extent applicable, on a Group and business division level. Adjusted results are a non-GAAP financial measure as defined by SEC regulations. Refer to page 9 of the first quarter 2016 report which is available in the section “Quarterly reporting” at www.ubs.com/investors for an overview of adjusted numbers. If applicable for a given adjusted KPI (i.e., adjusted return on tangible equity), adjustment items are calculated on an after-tax basis by applying an indicative tax rate. Refer to page 15 of the first quarter 2016 report for more information.

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